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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Commodity Prices . . .

With new record highs for the dollar becoming an almost weekly event, many of the economic effects of a powerful currency are becoming increasingly apparent. Not the least of these is the effect on commodity prices. Between the beginning of 1983 and the beginning of 1984, the IMF's index of commodity prices (excluding oil) rose by 17 percent in dollar terms, even as there was a 15 percent rise in the trade-weighted value of the dollar. This sharp rise in commodity prices, despite a long history of decline since the dollar began appreciating in 1980, reflected burgeoning demand for commodities to feed a vigorous economic recovery in this country as well as the somewhat more modest upturn in other industrial nations.

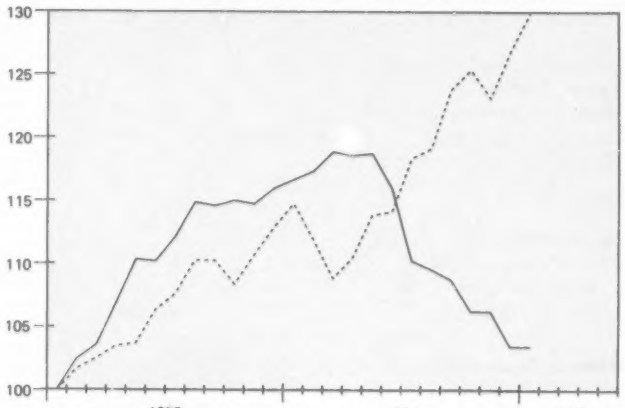
Commodity prices were forced up in spite of the appreciation of the dollar. But as the U.S. economy settled into a slower but more sustainable period of growth, around the middle of last year, global commodity prices began to fall again. This reflected slower growth in demand in the U.S.—and restored the more normal inverse relationship between the price of internationally traded goods and an appreciating dollar (see chart).

This reversal of the relationship between the appreciation of the dollar and global commodity prices has other causes beyond the slowing of U.S. economic growth. As the dollar has grown in strength versus the currencies of the commodity exporters, demand has fallen sharply from buyers with other currencies, reducing the exporters' overall earnings. Many producers have attempted to maintain the level of their earnings in dollar terms by increasing production. This has aggravated the excess of supply, further depressing prices for their exports. This effect is most clearly seen in the well-publicized problems which OPEC has experienced in keeping both prices and production quotas in line. Some of the poorer members see the continuing erosion of their incomes, while the cost of their imports from industrial countries rise.

. . . Surge Higher Overseas . . .

Commodity prices have also plunged in dollar terms due to the different impact on buyers of commodities in the other industrial countries as a result of changes in the exchange rate between their currencies and the dollar. For example, between the beginning and the end of 1984, the dollar appreciated by 18 percent against the pound sterling. Even if the dollar price of a particular commodity remained stable in dollar terms, it would still have increased by 18 percent to the British buyer.

ALL COMMODITIES INDEX* (LINE) VS. U.S. TRADE WEIGHTED DOLLAR INDEX (DOT) (JAN. 1983=100)



*IMF Index of Commodity Prices.

The exchange rate effects can make a considerable difference in the prices of commodities to the point where demand is seriously affected. For example, sugar prices rose by 16 percent in terms of the British pound between the beginning of the U.S. recovery and the end of last month, but they have dropped by about 25 percent in dollar terms over the same period, reaching a 14-year low. Copper and rubber prices, too, have risen on the London market, while falling in New York.

Most commodities are, of course, quoted on both the London and New York markets, with prices reflecting the changing and often volatile exchange rate between the pound and the dollar. Since the world price of such a globally traded commodity as sugar tends toward equilibrium in terms of purchasing power, changes in exchange rates are adjusted by the commodity markets. As the dollar appreciates, commodity prices will tend to cheapen

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in dollar terms (helping keep U.S. inflation down) and become more expensive in sterling terms (making their price battle more difficult). Other commodity buyers will benefit or suffer, price-wise, depending on the relationship of their currency to the dollar or to the pound and in which currency they must pay for their purchases.

Many commodities are traditionally priced in a particular currency, usually either the dollar or the pound. Most international transactions for these goods are paid for in these currencies. Commodities which are priced in dollars have seen demand fall sharply as they become too expensive for purchasers with other currencies. Lower demand for dollar-priced goods will result in lower prices for them, while commodities priced in other currencies will appear to fall in an index based on dollars. In both cases, prices will fall in a dollar-based commodity index.

. . . But Ebb Here

Although the extent and effect of changing commodity prices reflect exchange rate considerations, global inflation rates and supply and demand factors also continue to have their impact. The rapid easing of inflation in the industrial nations has intensified price competition in the international marketplace,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/13/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	165.348	+ .561	+ 9.058
Loans to Depository Inst.	1.095	– .547	+ .342
Float	.728	– .739	– .343
Total Reserve Bank Credit	179.559	– .603	+12.526
Treasury Deposits with Federal Reserve Banks	4.797	– .218	+ .399
Currency in Circulation	178.479	+ .822	+11.044
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.226	+ .372	– .454
	2/13/85		
Member Bank Reserves:			
Total Reserves Held	40.139	+ .188	+ 2.959
Excess (Deficiency)	1.013	+ .228	– .181
Net Free Reserves	.715	+ .384	+ .175
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (2/4/85)	565.0	‡	‡
M2 (January '85)	2,400.4	+ 14.1	+ 9.0
M3 (January '85)	3,028.3	+ 14.1	+ 11.4
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 2/15/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.17%	8.25%	8.43%
* Federal Agencies	8.32	8.56	9.24
* Project Notes—Taxfree (46% Taxable Equivalent)	7.96	8.33	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.85	9.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.40%	Mar.	8.50%
15- 29 days	8.40	Apr.	8.55
30- 59 days	8.40	May	8.60
60- 89 days	8.45	Jun.	8.65
90-179 days	8.50	Jul.	8.65
180-239 days	8.50	Aug.	8.65
240-270 days	8.50		

‡Industrial Paper—Prime			
30- 89 days	8.43%	†Federal Funds Effective Rate	8.50%
90-120 days	8.45		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Jan '85n	0.0%	2.4%r	8.4%r
Civilian Employment (Thousands of Persons)†	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Dec '84	164.9	165.2	163.4
Industrial Production Index (1967=100) †	Jan '85n	166.6	165.9r	158.5
Net Change in Consumer Installment Credit †	Dec '84n	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Dec '84	–$ 8.20	–$ 9.94	–$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Dec '84	$ 318.7	$ 316.0	$ 263.9
Total Business Inventories †	Dec '84n	$ 566.5	$ 565.0r	$ 514.3
Total Business Sales †	Dec '84n	$ 416.9	$ 414.5r	$ 395.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

putting downward pressure on prices at all levels.

The strength of the dollar also may create changes in trade patterns. Developing countries are the principal exporters of basic commodities and industrial raw materials. In many cases, they generate their foreign exchange almost entirely from these exports. If these countries can maintain or increase their market share in dollar-denominated trade, they can sustain their ability to meet their external debt obligations which are almost entirely denominated in dollars. Further, they can maintain their purchasing power when buying dollar-priced imports. But, to the extent that a developing country sells its exports to countries outside the U.S. while it buys its imports from the U.S., its purchasing power is reduced. What is more, such a country must increase the volume of non-U.S. exports in order to catch up. Conversely, a developing country is encouraged by a strong dollar to maximize its exports to the U.S., while at the same time minimizing its imports from this country. Although there is not yet clear evidence that such a shift in trade patterns has taken place to a great degree, a sustained period of dollar strength would encourage such a move. This would add further to the already huge U.S. merchandise trade deficit, and add to the already large toll of financial outflows and lost jobs. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/30/85)	156,782	– 728	+13,953
New York City (2/6/85)	33,293	– 467	+ 4,948
Commercial Paper (2/6/85)	244,621	+ 2,660	+55,483

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (1/30/85)	249,745	+ 187	+ 26,249
New York City (2/6/85)	61,945	+ 350	+ 3,409
Total Loans and Leases Gross Adjusted			
Nationwide (1/30/85)	651,879	– 65	+ 66,280
New York City (2/6/85)	141,914	+ 1,830	+ 12,193

Financial Markets

	Friday 2/15/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.45%	– .04	– 1.07
180-Day Bills†	8.71	– .05	– 1.22
Longest Bills†	9.10	– .02	– 1.15
Recent Issues:			
9 3/4s 1/31/87	9.98	– .02	
10 5/8s 12/31/88	10.72	– .03	
11 1/4s 2/15/95	11.40	+ .04	
11 1/4s 2/15/15	11.35	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (2/14/85)	9.64%	+ .12	– .04
Blue List Total ($ Million)	$1,797	+ $174	+ $ 457
30-Day Visible Supply ($ Million)	$2,838	– $ 24	+ $ 752
Total	$4,635	+ $150	+ $1,209
Corporates:			
Moody's Aa Composite (2/14/85)	12.40%	–0–	– .28
30-Day Visible Supply ($ Million)	$ 995	+ $550	– $ 255
Stocks:			
Dow-Jones Averages:			
Industrials	1,282.02	– 7.95	+ 133.15
Transportation	629.21	– .88	+ 126.90
Utilities	150.85	+ .05	+ 26.19
65 Stocks	523.65	– 2.05	+ 73.74
Standard and Poor's 500 Stocks	181.60	– .59	+ 25.86
N.Y.S.E. Composite Index	105.27	– .12	+ 15.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	120,876	–12,594	+ 36,028

* 46% Taxable equivalent 17.85%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/15/85	Week Ago
Overnight	8.50%	8.44%
1 month	8.50	8.75
3 month	8.88	9.13
6 month	9.38	9.44
1 year	9.94	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.25%
Long Term (7 to 15 yrs.)	11.45	11.50

FOREIGN EXCHANGE SPOT RATES New York Opening (2/15/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01524	65.6250
Canada	.7470	1.3386
Denmark	.08532	11.7200
France	.1001	9.9900
Germany	.3064	3.2642
Italy	.0004950	2020.00
Japan	.003892	256.95
Mexico	.004310	232.00
Netherlands	.2705	3.6963
Switzerland	.3604	2.7745
U.K.	1.1035	.9062

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